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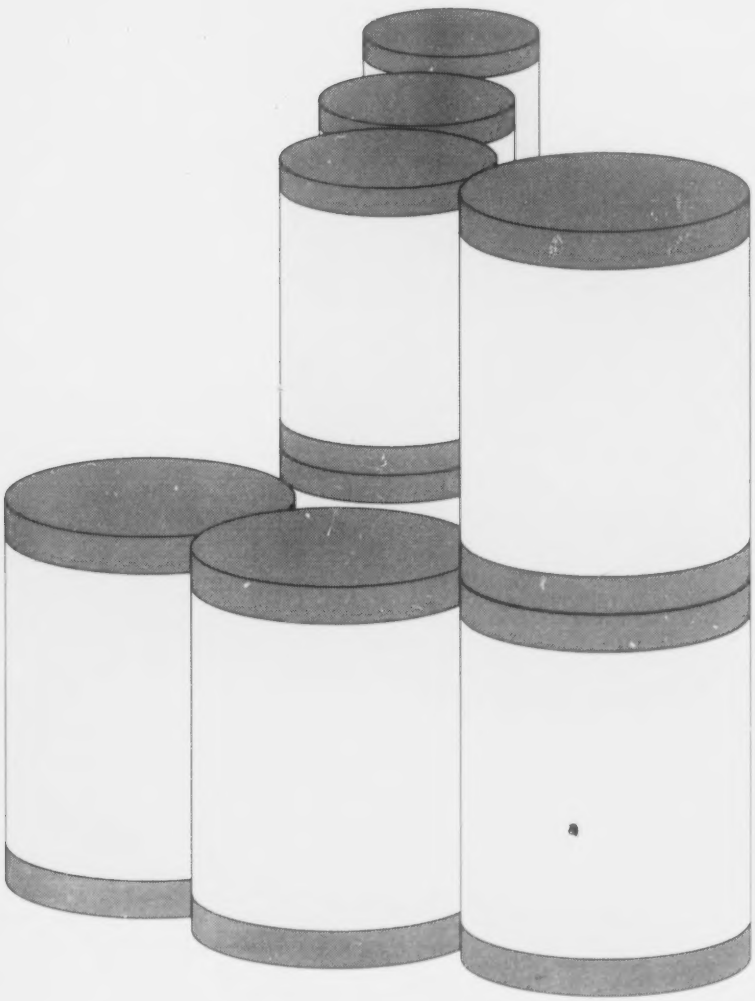
AN ECONOMIC APPRAISAL OF U.S. NEWSPAPERS AND NEWSPRINT CONSUMPTION



By Dr. Jon G. Udell
Irwin Maier Professor of Business
University of Wisconsin
Madison, Wisconsin

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American Newspaper Publishers Association
The Newspaper Center
Box 17407 Dulles Airport
Washington, D.C. 20041

American Newspaper Publishers Association
Newsprint Department
The Newspaper Center
Box 17407 Dulles Airport, Washington, D.C. 20041
(703) 648-1101

J.F. Prendergast Jr., Manager

N.J. Nocella, Assistant Manager

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All Tonnage Figures in this Report are in Metric Tons

About the Author

Professor Jon G. Udell is Irwin Maier Professor of Business, Graduate School of Business, the University of Wisconsin-Madison. He also is Chairman of the Board and Public Interest Director of the Federal Home Loan Bank of Chicago.

Dr. Udell has written more than 190 articles and books on newspaper economics, marketing, consumer behavior, and economic development. He is co-author of *Reporting on Business and the Economy* and author of *The Economics of the American Newspaper* and 36 other studies of newspapers and newsprint supply and demand. Dr. Udell has served as economic consultant to ANPA since 1964.

He received his Bachelor and Master of Business Administration degrees and a Doctor of Philosophy degree from the University of Wisconsin-Madison. He is a member of various professional and honorary societies, including Phi Beta Kappa, Beta Gamma Sigma, Phi Kappa Phi, and Phi Eta Sigma. Dr. Udell has served on numerous government councils and committees and the boards of directors of private and public organizations. In 1973, Dr. Udell was named "Wisconsinite of the Year" and received the Sidney S. Goldish Award for "significant and continuing contributions to newspaper research." In 1986, he received the Robert A. Jerred Distinguished Service Award of the University of Wisconsin's School of Business.

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Executive Summary

U.S. newsprint consumption totaled 12.337 million metric tons in 1988, up only slightly from that of the prior year. When adjusted to a 30-pound basis weight, consumption was 12.43 million tons. Although a record high consumption, the growth of U.S. newsprint usage lagged well behind the nation's 4.4 percent economic growth.

Newsprint consumption during the first ten months of 1989 declined slightly despite a moderate advance of the nation's Real Gross National Product. Both newspaper advertising and circulation failed to advance appreciably.

During the 1978-1988 period, total U.S. newsprint consumption, 30-pound basis weight, rose 24.2 percent. Consumption by U.S. daily newspapers grew 17.3 percent. However, if one were to include preprint tonnage, the newspaper growth rate would be considerably higher.

During the last ten years, southern newspapers' consumption expanded almost 28 percent. The newsprint usage by western U.S. newspapers grew 25 percent. Northeastern newspapers increased their consumption 20 percent; but in the North Central Region, newspapers' use of newsprint declined about 4 percent during the 1978-1988 period.

Newspapers in Alaska, New Hampshire, Arkansas, Nevada, Georgia, New Jersey, and Arizona enjoyed the fastest growth during the ten years. Their increase of newsprint usage ranged from 94 percent in Alaska down to 54 percent in Arizona. In 15 states, the newsprint consumption of daily newspapers declined during the ten years.

Newspapers in towns and cities of less than 100,000 population increased their newsprint consumption by more than 28 percent between 1978 and 1988. However, the fastest newspaper growth was in cities of one-half to one million population – 31 percent. In large cities of over one million, there was no rise of consumption by daily newspapers.

The Sunday circulations of daily newspapers reporting to ANPA expanded 7.9 million during the 1978-1988 period. However, daily circulation grew only 1.4 million.

United States producers increased their supply of newsprint to daily newspapers by 29.6 percent during the last ten years. Tonnage originating in Canada increased 5.4 percent. As a result, the U.S. producers' share of the daily newspaper market rose from 37.4 percent in 1978 to 41.3 percent in 1988. Canada's share of the market declined from 62.5 percent to 56.2 percent. Offshore suppliers accounted for almost none of the U.S. newspaper market in 1978, but 2.5 percent in 1988.

The Real Gross National Product (Real GNP) of 1989 is likely to total $4.14 trillion, up 2.9 percent from that of 1988. At best, real economic growth is forecast to slow to about 2 percent during 1990. However, if a recession materializes in the first half of 1990, a severe economic downturn is likely.

The major determinants of the economy in 1990 are interest rates and consumer spending. If rates move sufficiently downward and consumer confidence holds, a recession will be avoided. However, without these events, a recession is likely. Because of huge debt in both the public and private sectors of the economy, any recession is likely to be severe, rather than mild.

The U.S. newsprint consumption of 1989 is likely to be slightly less than that of 1988 – approximately 12.2 million metric tons, 30-pound basis weight.

If 1.5 to 2 percent real economic growth is realized in 1990, U.S. newsprint consumption should be between 12.4 and 12.5 million metric tons. However, if a recession were to materialize before the final quarter of the year, no growth of U.S. newsprint consumption is likely in 1990. It is difficult to envision consumer confidence remaining high during a sluggish economy. Therefore, the latter event–no growth of consumption–is probable.

As of 1989, U.S. newsprint consumption is below ANPA's projected trend of consumption through 1995. However, the magnitude and duration of the shortfall is not sufficient to warrant a change in the 14.5 million-ton projection (30-pound basis weight) for 1995.

PART I

The Recent Status of U.S. Newspapers and Newsprint Consumption

United States newsprint consumption, adjusted to a 30-pound basis weight, reached 12.43 million metric tons in 1988. Although a record high, consumption was just slightly greater than that of the prior year.

Actual or reported consumption in 1988 was 12.337 million tons, up 0.1 percent from the prior year's tonnage. The major force contributing to the increase was the expansion of the U.S. economy. During 1988, the Real Gross National Product (GNP) of the nation advanced 4.4 percent.

Despite the healthy expansion of the real economy, newspaper growth was anemic. Several factors accounted for this, including a slowing in the expansion of consumer expenditures; weaknesses in retailer, housing, and financial institution advertising; management efforts to reduce newspaper operating costs; and rising competition for advertising.

Throughout most of the expansion which began in 1983, increased consumer spending has been the primary propellent of national economic growth. The advance of consumer spending slowed during 1988 and an enlarged share of the nation's economic growth was provided by increased foreign exports and business investment. Although these developments were favorable to the U.S. economy (i.e., increased consumer saving, an improved capacity and competitive position for U.S. industry, and an increased Gross National Product), they did little to help newspaper advertising and circulation.

Daily newspaper advertising expenditures totaled $31.2 billion in 1988, up 6.1 percent from those of 1987.[1] At the same time, the nominal Gross National Product grew 7.9 percent and total advertising expenditures advanced 7.7 percent. As a result, newspapers' share of total advertising declined. As of 1988, newspapers' share of all advertising expenditures stood at 26.4 percent, down from 26.8 percent the prior year, but the same market share as in 1986.

The modest growth of newspaper advertising continued into 1989 and is the product of several forces, including corporate mergers, a reduced volume of housing activity in most U.S. market areas, and declining profit margins among many U.S. industries. The latter development has induced management to cut costs. One of the most visible and easily reduced costs is advertising, even though the ultimate effect may be reduced sales and profit.

Nationally, new housing starts declined in 1988 and again in 1989. In numerous markets, this has adversely affected advertising linage. The same effect has arisen from the merger of large retail institutions as well as the consolidation of certain financial institutions.

[1]Source: Robert J. Coen, McCann-Erickson Inc.

Although total national and local newspaper advertising expenditures did rise 2.6 percent and 6.5 percent, respectively, during 1988, advertising rates also rose. Consequently, many newspapers had no rise of advertising linage during the year.

Newspaper circulation also was fairly stagnant in 1988. Morning circulation rose to 40.45 million, up 3.4 percent from that of the prior year. However, the evening circulation of daily newspapers declined to 22.24 million, down 6.2 percent. Total daily circulation was 62.69 million in 1988, down slightly from 62.83 million in 1987. Sunday circulation rose to 61.47 million, up 2.3 percent.

Although U.S. newspapers successfully increased their Sunday circulation 13.9 percent during the past ten years, daily circulation is little changed (up only 1.1 percent). Increased competition for the time of newspaper readers (including the effect of increased participation in the labor force) and rising circulation rates probably are the two primary forces suppressing the growth of daily circulation. In addition, there has been a decline in the number of daily newspapers from 1,756 in 1978 to 1,642 in 1988. During the same span of time, the number of Sunday newspapers rose from 696 to 840.

Another factor contributing to the slow growth of newspaper advertising and circulation in recent years is the rising intensity of competition among the various media. The following summarizes the competitive standing of major media as of 1988:

Advertising Medium	Advertising Expenditures in Millions of Dollars	Percent of Total Advertising Expenditures	Percent Change of Advertising Expenditures 1987-1988
Newspapers	31,197	26.4	+ 6.1
Television	25,686	21.8	+ 7.5
Direct Mail	21,115	17.9	+10.5
Yellow Pages	7,781	6.7	+ 6.6
Radio	7,798	6.6	+ 8.2
Magazines	6,072	5.1	+ 8.3
All Other Media	18,401	15.6	+ 7.5
All Media	118,050	100.0	+ 7.7

Among the major media, newspapers experienced the slowest growth of advertising expenditures during 1988. Interestingly, the two highest rates of growth were enjoyed by other print media – direct mail (10.5 percent) and magazines (8.3 percent). Advances in printing technology and increased segmentation of the market by advertisers *probably* explain some of the recent success of these two media.

It also should be recognized that 1988 was a major national election year and a year of Olympic games. Both events favor advertising in some media, such as radio and television, more than in newspapers. However, the inescapable conclusion remains, *competition for the advertising dollar has intensified.*

Still another factor which negatively affects newspapers and newsprint consumption is the rising cost of producing and delivering a newspaper. One response of newspaper management to cost increases is to increase circulation and advertising rates; another is to eliminate marginal circulation. These responses were operative during 1988. In addition, when advertising revenues fail to grow as rapidly as costs, efforts are made to limit newsprint usage, especially in large newspapers where newsprint costs are a high proportion of total costs.

The ANPA newsprint prediction for 1989 was 12.3 to 12.4 million metric tons of reported consumption and approximately 100,000 tons more on a 30-pound basis weight.[2] The forecast also warned that a slowing economy could prompt newsprint consumption to decline in 1989. Given consumption during the first ten months of the year, which was down slightly from that of 1988, the forecast appears accurate. In fact, consumption for 1989 may be slightly less than 12.3 million tons on a reported tonnage basis. This conclusion is more fully discussed in Part III of this report.

[2] Jon G. Udell, *The Growth and Outlook for U.S. Newspapers and Newsprint Consumption*, American Newspaper Publishers Association, Washington, D.C., December 1988, p. 21.

PART II

A Decade of Newspaper Growth

U.S. daily newspapers reporting to ANPA consumed 9,050, 472 tons of newsprint during 1988 – 0.8 percent less than a year earlier but 18.6 percent more than in 1978. Given the fact that newspaper management has found ways to conserve newsprint and minimize waste, U.S. daily newspapers grew approximately 20 percent during the most recent decade.

Table I presents 1988 and 1978 newsprint usage by daily newspapers in each state. The data are reported consumption and are not adjusted for losses due to strike activity or differences in basis weight.

Table I

State-by-State Newsprint Consumption by U.S. Daily Newspapers

	1988	1978	10-Yr. % Change		1988	1978	10-Yr. % Change
Alabama	74,994	69,151	8.4	Montana	12,418	14,464	-14.1
Alaska	16,792	8,680	93.5	Nebraska	46,152	47,634	-3.1
Arizona	138,847	90,477	53.5	Nevada	46,663	28,591	63.2
Arkansas	63,744	38,083	67.4	New Hampshire	23,409	13,128	78.3
California	1,297,883	1,031,883	25.8	New Jersey	391,788	248,099	57.9
Colorado	180,904	137,537	31.5	New Mexico	26,764	23,144	15.6
Connecticut	116,945	109,549	6.8	New York	934,795	724,543	29.0
Delaware	17,322	14,648	18.3	North Carolina	171,469	120,477	42.3
District of Columbia	260,082	185,884	39.9	North Dakota	12,412	13,455	-7.8
Florida	613,696	424,697	44.5	Ohio	338,555	381,964	-11.4
Georgia	209,790	131,439	59.6	Oklahoma	71,646	83,132	-13.8
Hawaii	28,812	30,522	-5.6	Oregon	94,170	80,069	17.6
Idaho	15,371	16,301	-5.7	Pennsylvania	423,572	414,765	2.1
Illinois	451,592	478,665	-5.7	Rhode Island	44,155	33,189	33.0
Indiana	149,188	147,329	1.3	South Carolina	72,606	51,707	40.4
Iowa	72,435	70,342	3.0	South Dakota	10,843	11,120	-2.5
Kansas	41,464	45,305	-8.5	Tennessee	121,824	112,828	8.0
Kentucky	70,253	79,963	-12.1	Texas	637,495	541,953	17.6
Louisiana	109,475	114,989	-4.8	Utah	33,734	35,524	-5.0
Maine	27,934	20,177	38.4	Vermont	9,369	7,023	33.4
Maryland	124,154	95,731	29.7	Virginia	146,644	109,037	34.5
Massachusetts	324,994	222,858	45.8	Washington	139,229	135,211	3.0
Michigan	322,040	319,565	0.8	West Virginia	31,381	33,354	-5.9
Minnesota	135,277	122,087	10.8	Wisconsin	130,485	152,043	-14.2
Mississippi	35,092	30,901	13.6	Wyoming	5,962	5,558	7.3
Missouri	173,852	171,746	1.2	Total	9,050,472	7,630,521	18.6

Source: Annual surveys by ANPA.

As of 1988, California dailies were the largest consumers of newsprint – almost 1.3 million metric tons. New York newspapers were second with a 935,000-ton consumption.

The fastest growth of consumption (94 percent) during the ten years occurred in Alaska. Newspapers in New Hampshire increased their newsprint usage by over 78 percent during the 1978-1988 period. Other states with very rapid rates of newspaper growth were Arkansas (67 percent), Nevada (63 percent), Georgia (60 percent), New Jersey (58 percent), and Arizona (54 percent).

In 15 states, newsprint usage by daily newspapers declined during the ten-year period. The largest declines (14 percent) were in Wisconsin, Montana, and Oklahoma.

Real Newspaper Growth 1978-1988

Because strikes against newspapers temporarily affect their newsprint consumption, it is appropriate to adjust consumption data for the impact of strikes against newspapers. In 1978, this loss was 130,000 metric tons. In 1988 no tonnage was lost because of strike activity. During recent decades, the average basis weight of newsprint has changed. To provide an accurate picture of newspaper growth, it is necessary to adjust consumption data to a uniform basis weight, such as 30 pounds. As shown in Table II, newsprint consumption by daily newspapers, when adjusted for strikes and basis weight, rose 17.3 percent during the 1978-1988 decade.

Some of the difference between this growth rate and the 24.2 percent rise of total U.S. newsprint consumption undoubtedly is due to the growth of preprinted advertising inserts. Most of the preprint tonnage is not included in U.S. newspapers' consumption data, even though the inserts ultimately became a part of the daily newspaper. Excluding insert tonnage, daily newspapers accounted for 54.5 percent of the total growth of U.S. newsprint consumption during the 1978-1988 period. With insert tonnage, that proportion would be higher.

The amount of preprint tonnage included in daily newspapers is not known, but it is substantial and has grown rapidly. As of 1987, insert tonnage on all grades of paper, excluding coupons and catalogs, totaled an estimated 2.147 million tons.[3] Of this amount, almost 800,000 tons of inserts were printed on newsprint. By 1992, newsprint usage by producers of printed inserts is forecast to rise to 905,000 tons with an average annual growth rate of 2.6 percent.[4] The tonnage of all inserts is predicted to grow at least 5 percent annually through 1992.

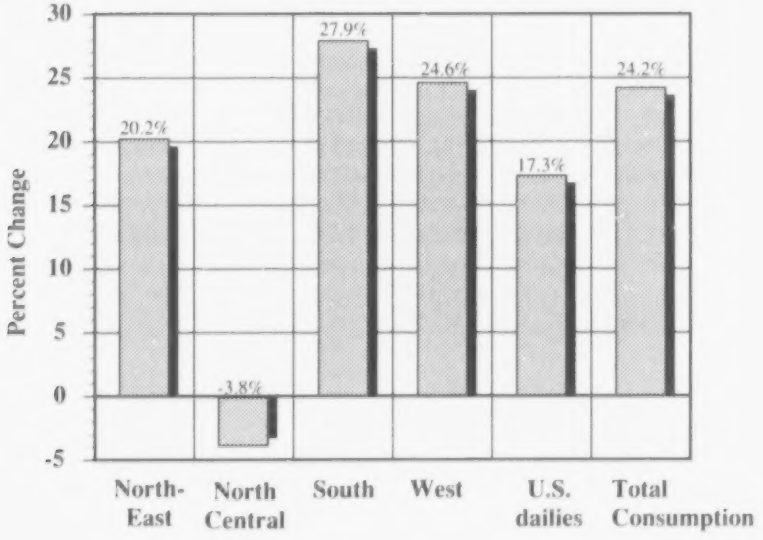
[3]Walker Wiener Associates Inc. For a discussion, see PULP & PAPER WEEK, "Boom in free-standing inserts, flyers bodes well for printers, paper mills," August 22, 1988.
[4]Ibid.

Table II

Changes in Newsprint Consumption of U.S. Daily Newspapers in Various Geographic Regions

1978-1988[5]

Region	1978 Consumption	1988 Consumption	Tons Change	Percent Change
Northeast	1,876,692	2,255,661	378,969	20.2
North Central	1,934,551	1,861,930	-72,621	-3.8
South	2,198,768	2,812,255	613,487	27.9
West	1,616,333	2,013,798	397,465	24.6
Total Consumption by U.S. Dailies	7,626,344	8,943,644	1,317,300	17.3
Total U.S. Consumption by All Users	10,011,774	12,430,000	2,418,226	24.2



[5] Tonnage is on a 30-pound basis weight. The newspaper consumption data do not include foreign language newspapers, college newspapers, special service dailies, The Christian Science Monitor, The Wall Street Journal, The Journal of Commerce and The Daily Racing Form. Consumption data are adjusted for temporary losses due to major strikes against newspapers in 1978. No strike loss occurred in 1988. Total consumption by U.S. dailies may not precisely equal regional or city-size data because of rounding. A listing of the regions is shown on page 23.

Source: Daily newspapers reporting to ANPA.

Regional Consumption Growth

Table II also presents newsprint consumption data for daily newspapers in the four major regions of the United States. During the 1978-1988 period, newspapers in the South enjoyed the fastest rate of growth. Their newsprint consumption expanded 613,000 tons, an increase of almost 28 percent.

Newspapers in the West also expanded quite rapidly. Their newsprint usage increased 397,000 tons, a growth of about 25 percent.

Consumption by Northeastern newspapers increased 20 percent with a tonnage increase of 379,000 tons. In the North Central Region, newspaper use of newsprint decreased 73,000 tons or about 4 percent during the 1978-1988 period.

The differences in regional consumption growth undoubtedly are a function of population migration and the differing rates of economic expansion among the four regions. If the resurgence of U.S. manufacturing continues, North Central newspapers can be expected to expand more rapidly in the future than they did during the last decade.

Consumption by City Size

A summary of newsprint consumption by daily newspapers in cities of various sizes is presented in Table III.

During the 1978-1988 period, newspapers in towns and cities of less than 100,000 people grew 28.5 percent. Their ten-year consumption increase was 513,000 tons.

Newspapers located in cities of 100,000 to 250,000 population experienced over 17 percent growth. These newspapers consumed 217,000 tons more newsprint in 1988 than a decade earlier.

In cities of one-quarter to one-half million people, newsprint usage expanded 214,000 tons or 14 percent during the 1978-1988 period.

The fastest growth of daily newspapers was in cities of one-half to one million population – 31.4 percent. In these cities, consumption rose 375,000 tons during the past ten years.

Newsprint consumption by daily newspapers in cities of one million or more people was almost unchanged during the 1978-1988 period. Although some metropolitan newspapers expanded during the period, the net effect of all gains and losses was a 2,000-ton decrease of total consumption.

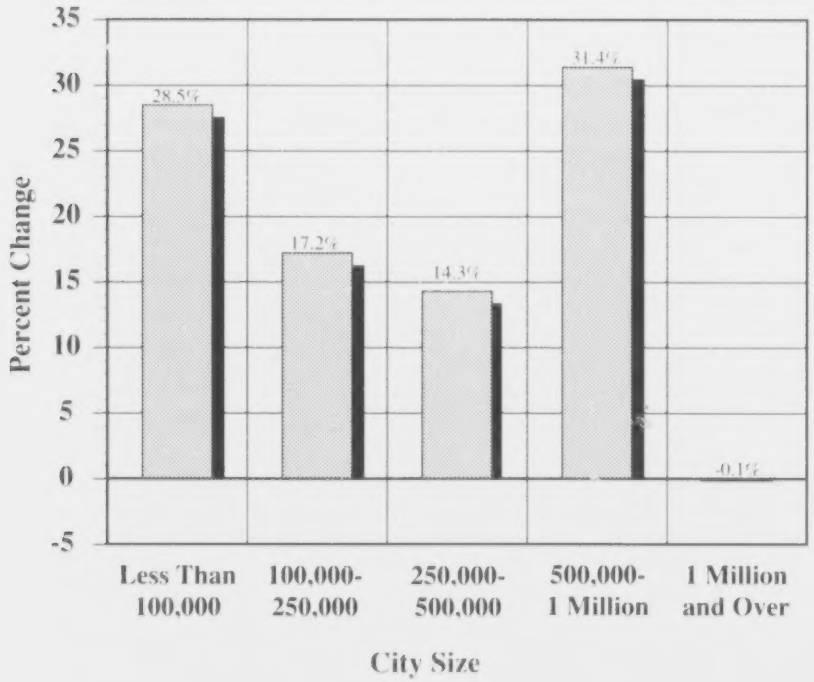
Among the five city-size classifications, newspapers in urban areas of less than 100,000 people are the largest aggregate consumers of newsprint. Newspapers in urban areas of over one million have the second largest total consumption.

Table III

Changes in Newsprint Consumption of U.S. Daily Newspapers by City Size

1978-1988[6]

City Size	1978 Consumption	1988 Consumption	Tons Change	Percent Change
Less than 100,000	1,797,338	2,310,030	512,692	28.5
100,000 to 250,000	1,261,790	1,478,393	216,603	17.2
250,000 to 500,000	1,503,236	1,717,721	214,485	14.3
500,000 to 1 million	1,195,732	1,571,028	375,296	31.4
1 million and over	1,868,248	1,866,472	-1,776	-0.1
All Daily Newspapers	7,626,344	8,943,644	1,317,300	17.3



[6] See footnote 5, page 8.
Source: Daily newspapers reporting to ANPA.

Regional Circulation

Advertising and circulation are the two major factors in the rise or fall of newsprint consumption by newspapers. The daily circulation of the U.S. newspapers included in this analysis was 60.7 million as of 1988 – 1.4 million more than ten years earlier.

Daily circulations in the four geographic regions of the United States are shown in Table IV. The highest rate of circulation growth occurred in the West, where daily circulation rose more than 1.5 million or over 14 percent during the 1978-1988 period.

Daily circulation also expanded in the South where circulation expanded almost 1.5 million, a gain of about 9 percent.

Daily circulation in the North Central Region fell 824,000 or 5 percent during the 1978-1988 decade. In the Northeast, circulation declined 754,000 or about 5 percent during the ten years.

The Sunday circulation of U.S. newspapers increased in all regions. In the West, Sunday circulation expanded 26 percent to 12 million in 1988. Southern newspapers enjoyed a 22 percent rise to 19.6 million circulation in 1988.

Sunday circulation as of 1988 totaled 15 million in the North Central Region and about 14 million in the Northeast. Circulation in the North Central Region was up 10.5 percent from that of ten years earlier. Among newspapers in the Northeast, Sunday circulation rose 3 percent during the 1978-1988 period.

Table IV

Regional Changes in Circulation of U.S. Daily Newspapers

1978-1988[7]

Daily Circulation

Region	1978	1988	Change	Percent Change
Northeast	15,290,763	14,536,948	-753,815	-4.9
North Central	16,321,632	15,497,829	-823,803	-5.0
South	17,090,182	18,573,529	1,483,347	8.7
West	10,567,134	12,081,818	1,514,684	14.3
Total	59,269,711	60,690,124	1,420,413	2.4

Sunday Circulation

Region	1978	1988	Change	Percent Change
Northeast	13,491,708	13,899,806	408,098	3.0
North Central	13,573,461	14,999,184	1,425,723	10.5
South	16,068,295	19,621,034	3,552,739	22.1
West	9,552,215	12,033,048	2,480,833	26.0
Total	52,685,679	60,553,072	7,867,393	14.9

Circulation by City Size

As shown in Table V, the total daily circulation of newspapers in cities of less than 100,000 population expanded 2.6 million or 11 percent during the ten years. Their 1988 circulation, totaling 26.2 million, was substantially larger than that of any other city-size classification.

The daily circulation of newspapers in cities of 100,000 to 250,000 population declined 377,000 or about 4 percent. In cities of one-quarter to one-half million, daily circulation decreased 257,000 or almost 3 percent.

[7]See footnote 5, page 8 for newspapers not included in the analysis.
Source: Standard Rate & Data Service Inc.

Daily circulation rose 429,000 in cities of one-half to one million population during the 1978-1988 period–an increase of 6.5 percent. Daily circulation declined slightly over one million or 11 percent among cities of one million or more population.

Sunday circulation rose in all city-size classifications except those of over one million. In towns and cities of less than 100,000, Sunday circulation grew 5.7 million or almost 42 percent. Sunday circulation expanded 1.6 million or almost 16 percent in cities of 100,000 to 250,000. In cities of one-quarter to one-half million population, the growth was 1.0 million or 9.5 percent. Total Sunday circulation increased 1.2 million or upwards of 17 percent in cities of one-half to one million population. The Sunday circulation of large metropolitan newspapers decreased 1.6 million or 14 percent between 1978 and 1988.

Table V

Changes in Circulation of Daily Newspapers by City Sizes

1978-1988[8]

Daily Circulation

City Size	1978	1988	Change	Percent Change
Less than 100,000	23,598,738	26,248,263	2,649,525	11.2
100,000 to 250,000	10,183,300	9,805,924	-377,376	-3.7
250,000 to 500,000	9,577,702	9,320,612	-257,090	-2.7
500,000 to 1 million	6,579,487	7,008,503	429,016	6.5
1 million and over	9,330,484	8,306,822	-1,023,662	-11.0
All U.S. Dailies	59,269,711	60,690,124	1,420,413	2.4

Sunday Circulation

City Size	1978	1988	Change	Percent Change
Less than 100,000	13,574,277	19,257,126	5,682,849	41.9
100,000 to 250,000	9,851,972	11,417,824	1,565,852	15.9
250,000 to 500,000	10,424,635	11,415,259	990,624	9.5
500,000 to 1 million	7,430,889	8,668,128	1,237,239	16.6
1 million and over	11,403,906	9,794,735	-1,609,171	-14.1
All U.S. Dailies	52,685,679	60,553,072	7,867,393	14.9

[8] Ibid.
Source: Standard Rate & Data Service Inc.

Many small city newspapers have added Sunday editions during the past decade. This has enhanced their Sunday circulations and adversely affected some large city newspaper circulations. In addition, rising costs of production and delivery have increased circulation rates. This has adversely affected the out-of-town circulation of metropolitan newspapers.

Sources of Supply 1978-1988

Sources of newsprint supply for daily newspapers in each region of the United States are shown in Table VI. These data also are adjusted to a 30-pound basis weight and for the effect of strikes against newspapers.

While newsprint consumption by U.S. daily newspapers reporting to ANPA rose 17.3 percent during the ten years, United States mills increased their tonnage supplied to these newspapers by 29.6 percent. The tonnage originating in Canada increased 5.4 percent. As a result, the U.S. producers' share of the newspaper market rose from 37.4 percent in 1978 to 41.3 percent in 1988. Canada's share of the market declined from 62.5 percent to 56.2 percent during the ten years. Overseas supplies accounted for almost none of the U.S. newspaper market in 1978 and 2.5 percent in 1988.

Despite the 1978-1988 decline in Canada's share of the market, mills in East Canada increased their shipments to U.S. newspapers by 279,000 tons or 7.0 percent, while mills in West Canada experienced a 2.7 percent loss of tonnage during the ten-year period.

Southern U.S. newsprint mills expanded their shipments to U.S. daily newspapers by 555,000 tons or 35.5 percent during the 1978-1988 period. Also enjoying a significant increase – 327,000 tons or 41.2 percent – were mills located in the West Region of the United States. Mills in the Northeast and North Central Regions saw their shipments to newspapers decline during the ten-year period.

As of 1988, the major sources of supply to U.S. daily newspapers were East Canada (4.2 million tons), South U.S. (2.1 million tons), West U.S. (1.1 million tons) and West Canada (0.8 million tons). The tonnage supplied by all Canadian producers during 1988 was up 84,000 tons from that of a year earlier. That supplied by U.S. mills was down 86,000 tons from the prior year.

For two consecutive years, the historic shift of supply toward U.S. newsprint producers has *not* prevailed. However, given rising political demands for the recycling of used newsprint, the historic shift is likely to again prevail unless Canadian producers can economically use recycled fiber.

Throughout the United States, communities are confronted with landfill problems. Both communities and states are increasingly demanding that newspapers be recycled rather than trashed. The supply of used newsprint has risen rapidly, and numerous states have passed legislation providing either negative or positive inducements for newspapers to use recycled newsprint. Consequently, publishers' demand for recycled newsprint will rise, reducing the demand for 100 percent virgin fiber newsprint.

Table VI

Source of Newsprint Supply for U.S. Daily Newspapers

1978-1988[9]

Location of Suppliers	Tons Supplied 1978	Tons Supplied 1988	Tons Change	Percent Change	Share of Supply 1978	Share of Supply 1988
United States	2,847,930	3,691,420	843,490	29.6	37.4	41.3
Northeast	401,129	375,486	-25,643	-6.4	5.3	4.2
North Central	90,545	78,272	-12,273	-13.6	1.2	0.9
South	1,562,881	2,117,558	554,677	35.5	20.5	23.7
West	793,375	1,120,104	326,729	41.2	10.4	12.5
Canada	4,769,240	5,026,081	256,841	5.4	62.5	56.2
East	3,967,921	4,246,534	278,613	7.0	52.0	47.5
West	801,319	779,547	-21,772	-2.7	10.5	8.7
Overseas	9,174	226,144	216,970	2,365.1	0.1	2.5
Total Supply to U.S.	7,626,344	8,943,645	1,317,301	17.3	100.0	100.0

Regional Sources of Supply

The sources of supply for daily newspapers in each region of the United States are shown in Table VII. During 1988, newspapers in the Northeast received about 79 percent of their newsprint from East Canada, with most of the remaining supply (almost 16 percent) coming from Northeast U.S. mills. Southern mills supplied about 4 percent of Northeast newspapers' requirements.

North Central daily newspapers received about 86 percent of their newsprint from Canadian mills during 1988, with most of that supply coming from East Canada. Southern mills supplied 10 percent of North Central newspapers' requirements. Four percent of North Central newspapers' supply originated within their region.

Southern newspapers received 63.5 percent of their newsprint from South U.S. mills in 1988. Canadian mills, primarily producers in East Canada, supplied about 31 percent of the southern newspapers' requirements. Overseas producers provided 4 percent of southern newspapers' supply.

As of 1988, West U.S. newspapers received almost 54 percent of their supply from West U.S. mills. Over 39 percent of the newsprint came from Canadian mills, with West Canadian mills supplying 34.6 percent of the West's total requirements. Offshore producers supplied 4.3 percent and southern U.S. mills provided 2.7 percent of western newspapers' supply.

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[9]See footnote 5, page 8.
Source: Daily newspapers reporting to ANPA.

Table VII

Regional Sources of Newsprint for U.S. Daily Newspapers 1978-1988[10]

Location of Suppliers	Tons Supplied 1978	Tons Supplied 1988	Tons Change	Percent Change	Share of Supply 1978	Share of Supply 1988
Northeastern Newspapers						
United States	375,956	449,311	73,355	19.5	20.0	19.9
Northeast	369,934	359,308	-10,626	-2.9	19.7	15.9
North Central	nil	1,233	1,233	nil	nil	0.1
South	6,022	88,222	82,200	1,365.0	0.3	3.9
West	nil	548	548	nil	nil	nil
Canada	1,500,736	1,780,225	279,489	18.6	80.0	78.9
East	1,491,450	1,780,225	288,775	19.4	79.5	78.9
West	9,286	----	-9,286	-100.0	0.5	nil
Overseas	nil	26,125	26,125	nil	nil	1.2
Total Supply to Northeast	1,876,692	2,255,661	378,969	20.2	100.0	100.0
North Central Newspapers						
United States	254,585	266,005	11,420	4.5	13.2	14.3
Northeast	806	----	-806	-100.0	nil	nil
North Central	80,984	73,939	-7,045	-8.7	4.2	4.0
South	172,664	189,838	17,174	9.9	8.9	10.2
West	131	2,228	2,097	1,600.8	nil	0.1
Canada	1,679,966	1,595,760	-84,206	-5.0	86.8	85.7
East	1,594,991	1,533,626	-61,365	-3.8	82.4	82.4
West	84,975	62,134	-22,841	-26.9	4.4	3.3
Overseas	nil	165	165	nil	nil	nil
Total Supply to North Central	1,934,551	1,861,930	-72,621	-3.8	100.0	100.0
Southern Newspapers						
United States	1,410,466	1,836,124	425,658	30.2	64.2	65.3
Northeast	30,040	16,175	-13,865	-46.2	1.4	0.6
North Central	9,184	3,099	-6,085	-66.3	0.4	0.1
South	1,362,180	1,785,591	423,411	31.1	62.0	63.5
West	9,062	31,259	22,197	244.9	0.4	1.1
Canada	788,177	862,422	74,245	9.4	35.8	30.7
East	783,803	842,025	58,222	7.4	35.6	30.0
West	4,374	20,397	16,023	366.3	0.2	0.7
Overseas	125	113,709	113,584	908.7	nil	4.0
Total Supply to South	2,198,768	2,812,255	613,487	27.9	100.0	100.0
Western Newspapers						
United States	806,923	1,139,981	333,058	41.3	49.9	56.6
Northeast	349	4	-345	-98.9	nil	nil
North Central	377	----	-377	-100.0	nil	nil
South	22,015	53,907	31,892	144.9	1.4	2.7
West	784,182	1,086,070	301,887	38.5	48.5	53.9
Canada	800,361	787,672	-12,689	-1.6	49.5	39.1
East	97,677	90,656	-7,021	-7.2	6.0	4.5
West	702,684	697,016	-5,668	-0.8	43.5	34.6
Overseas	9,049	86,145	77,096	852.0	0.6	4.3
Total Supply to West	1,616,333	2,013,798	397,465	24.6	100.0	100.0

[10]Ibid.
Source: Daily newspapers reporting to ANPA.

PART III

Predictions for 1990

As of November 1989, the current economic expansion was seven years old – aged by all historical standards. However, the longevity of the expansion is not a major determinant of the future. Instead, a host of economic, social, and political forces will shape the economy during the decade of the 1990s.

The most threatening dimension of the economic outlook is the nation's over-reliance on debt financing and foreign credit. Congress has failed to address the deficit spending problem; consequently, the federal government's debt continues to rise rapidly. In addition, U.S. industry has continued to expand its record-high debt, primarily because of mergers and management buyouts. Consumer installment debt also is very high, but rising at a reduced pace because of increased consumer saving during the last two years.

Since the beginning of 1983, the domestic debt of all nonfinancial sectors of the U.S. economy has more than doubled. The result is heavy reliance on foreign capital and credit, large financial carrying costs, upward pressure on interest rates, and a significant loss of control over the nation's future economic destiny.

The widely predicted "soft economic landing," if interpreted as meaning a mild recession, may well be an impossibility. With huge financial carrying costs, the reduction of cash flow associated with a recession would cause financial defaults among numerous highly leveraged companies. This, in turn, would prompt employee layoffs and severe problems in the financial sector, which already is greatly troubled by nonperforming loans.

As a consequence, one of two economic scenarios is likely during 1990 – continued slow expansion of the U.S. economy or a "hard landing."

Looking to the more favorable scenario, which might best be labeled "precarious but modest expansion," the elements involved are as follows:

First, U.S. consumers have made more progress toward getting their financial affairs in order than government and many businesses. The employment rate is high, consumer income is expanding, and the savings rate has increased well over 50 percent since 1987. Consumer confidence, although less than it was a few months ago, is still fairly strong. That favors future increases of expenditures. *However, if consumer confidence were to falter, a recession would be inevitable.*

Second, there is substantial downward pressure on interest rates to preclude both a rise in the international value of the dollar and a precipitous fall of the stock market.

Third, and related to the above, is the fact that the federal government, including the Federal Reserve System, will attempt to avoid a recession. With government debt and deficit spending already too high and many financial institutions severely weakened by bad loans, the United States cannot afford a recession at this time. As already indicated, a recession would be likely to "snowball" into a financial disaster for both the

public and private sectors.

Fourth, recent natural disasters (Hurricane Hugo and the California earthquake) are likely to create considerable construction activity during 1990.

However, even if these and other forces enable the nation to avoid a recession in the months ahead, there is little likelihood of substantial economic growth in 1990. No major sector of the U.S. economy has a highly promising outlook.

Forecasts by Sector

The U.S. economy already has slowed appreciably. With corporate profits down and business operating ratios declining, the business investment sector is not likely to make a meaningful contribution to economic growth during the forthcoming year.

Government spending will contribute to growth during 1990, both because of an inability to balance the budget and major social needs, such as disaster relief, housing needs, and the drug problem. However, military expenditures are likely to decline and the overall growth of government spending will be modest in 1990.

The future balance of foreign trade is uncertain. The reduction of the U.S. trade deficit is faltering. Lower U.S. interest rates, *if* forthcoming, would suppress the international value of the dollar and improve the ability of U.S. industry to increase exports. Unfortunately, the nation's huge need for foreign credit and capital makes a major reduction of the negative trade balance extremely difficult to achieve.

The above predictions leave the consumer sector in control. The expansion of consumer income has slowed. High consumer debt and high interest rates have suppressed consumer expenditures for most durable goods. However, as noted earlier, consumer saving has improved and consumer confidence is still high. Therefore, real consumer spending may increase modestly in 1990, contributing to economic growth. In this regard, it should be noted that consumer expenditures currently constitute 64 percent of the Gross National Product.

Going beyond the economic sectors, the important role of interest rates should be recognized. The above predictions assume a general trend toward moderation of interest rates during the months ahead. However, the nation's heavy deficit spending could make that assumption impossible *if* foreign creditors were unwilling to supply adequate quantities of credit at reduced interest rates. That unwillingness is not probable, but it is possible.

In any event, the two major economic forces to monitor in the year ahead are interest rates and consumer expenditures. If interest rates trend downward and consumer confidence holds, the Real GNP of 1990 is likely to be 1.5 to 2 percent greater than that of 1989. If one assumes a Real GNP of $4.14 trillion for 1989, two

percent growth would yield a Real GNP of $4.22 trillion in 1990.

The danger of a recession commencing before the end of 1990 is high. U.S. manufacturing has slowed substantially in recent months, as have national housing construction and corporate profits. Some geographic areas and industries already are in a recession. However, as long as consumer confidence remains relatively high, a recession will be avoided. But, if interest rates do not move sufficiently downward to stimulate housing and consumer durable goods purchases, it is doubtful that consumer confidence will hold at a high level throughout 1990.

Should a recession materialize, the danger of a financial crisis is great. The Federal Reserve *might* be able to pre-empt the latter by flooding the economy with liquidity and substantially lowering interest rates. Even with such measures, which may or may not be forthcoming, the recession is likely to be severe.

Each of the above scenarios–precarious slow growth or severe recession – has approximately a 50 percent probability of occurrence in 1990. However, so long as consumer confidence remains reasonably strong and interest rates migrate downward, continued slow growth of the economy is likely.

Newsprint in 1990

Preliminary estimates for the first ten months of 1989 suggest that total U.S. newsprint consumption has fallen 0.7 percent. However, ANPA estimates show that consumption by U.S. newspapers is up 0.7 percent from that of 1988.

Without the political advertising of last year, consumption in the closing months of 1989 is likely to be less than that of the prior year. Therefore, the total consumption for 1989 is likely to be around 12.24 million tons, down slightly (approximately 0.8 percent) from that of the prior year.

Looking to 1990, there is rising capacity in the newsprint industry. Excess capacity places downward pressure on newsprint prices and reduces the need for newspapers to raise advertising and circulation rates. Therefore, with slow economic growth in 1990, newsprint consumption should once again rise at a pace similar to the rate of economic growth. Real economic growth of 1.5 to 2 percent should yield a U.S. newsprint consumption between 12.4 and 12.5 million tons. However, if a recession were to materialize before the final quarter of 1990, there probably would be no growth of U.S. newsprint consumption during the year.

If a recession were to materialize in the very near future, 1990 would be a very bad year for the economy, newspapers, and newsprint consumption. It can be argued that some newspapers already are in a recession, especially those on the east coast. A hard "economic landing" for the entire nation in 1990 would decrease U.S. newsprint consumption, probably to less than 12 million tons.

At this point in time, interest rates do appear to be heading downward and consumer confidence remains fairly strong. *If* these conditions continue to prevail, U.S. newsprint consumption should advance between 12.4 and 12.5 million tons in 1990. Using a 30-pound basis weight, consumption would be approximately 100,000 tons greater. Unfortunately, it is doubtful that consumer confidence will hold throughout 1990. Assuming a slow economy with a recession commencing before year-end, U.S. newsprint consumption is unlikely to rise above that of 1989.

Appraisal of the 1995 Projection

Newsprint consumption, as of 1989, is below the projected trend value for the year. In addition, the historic relationship between newsprint and the economy has not prevailed during the last two years.

History vividly demonstrates that the dynamics of newspaper growth and newsprint consumption cause temporary diversions from the underlying trend. Although the current diversion is of concern, it is not yet of sufficient magnitude and duration to warrant a change in the 14.5 million metric ton (30-pound basis weight) projection for 1995.

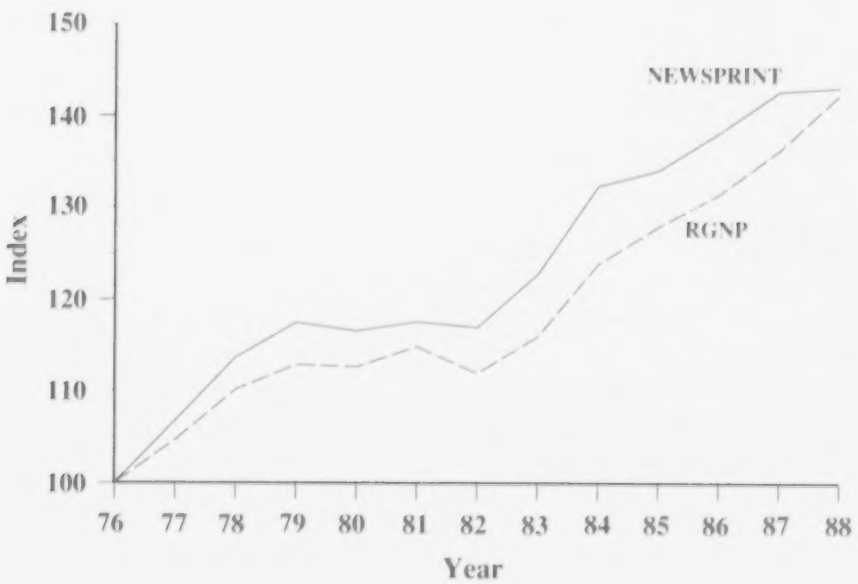
Two factors will determine whether or not the projection is realized – future U.S. economic growth and the competitive status of U.S. newspapers. If the latter should weaken considerably, as some are predicting, the trend projection would not be realized.

U.S. newspapers and newsprint consumption have faltered in 1988 and 1989. As shown in Figure I, U.S. newsprint consumption grew more rapidly than the economy (i.e., Real Gross National Product) during the 1976-1987 period. However, there was little growth of consumption in 1988 even though the economy advanced fairly rapidly. In 1989, newspapers and newsprint again failed to equal U.S. economic expansion.

Figure I

U.S. Newsprint Consumption and Real Economic Growth, 1976-1988

Year	Newsprint Consumption[11]	Real GNP[12]	Newsprint Index	RGNP Index
1976	8,688	2,826.7	100.0	100.0
1977	9,280	2,958.6	106.8	104.7
1978	9,882	3,115.2	113.7	110.2
1979	10,205	3,192.4	117.5	112.9
1980	10,134	3,187.1	116.6	112.7
1981	10,219	3,248.8	117.6	114.9
1982	10,169	3,166.0	117.0	112.0
1983	10,666	3,279.1	122.8	116.0
1984	11,502	3,501.4	132.4	123.9
1985	11,651	3,618.7	134.1	128.0
1986	12,007	3,717.9	138.2	131.5
1987	12,395	3,853.7	142.7	136.3
1988	12,430	4,024.4	143.1	142.4



[11] Thousands of metric tons, 30-pound basis weight. Source: American Newspaper Publishers Association.
[12] Billions of 1982 dollars.
Source: Department of Commerce, Bureau of Economic Analysis.

As noted earlier, operating costs and, therefore, advertising and circulation rates rose considerably in 1988. Consequently, elasticity of demand could well be the primary reason for the stagnation of newsprint consumption during the last two years. However, with excess capacity in the newsprint industry and a fairly favorable outlook for future operating costs, U.S. newspapers should fare better in the years ahead.

Of somewhat greater concern is the outlook for the economy in the first half of the nineteen-nineties. The 14.5 million metric ton projection assumes an average annual U.S. economic growth rate of 2.5 percent. A major recession with a financial crisis could prevent the economic assumption from being realized. Despite that possibility, it does not appear appropriate to revise the 1995 newsprint consumption projection at this time.

On several past occasions, ANPA's ten-year projections have appeared to be too high or too low, but the projections ultimately were realized. On only one occasion was a projection revised, with the primary reason being a change in the basis weight of newsprint.

Past accuracy does not guarantee that of the 1995 projection. Therefore, the projection will be re-evaluated in 1990.

# # #

United States by Regions

Northeast

Connecticut
Maine
Massachusetts
New Hampshire
New Jersey
New York
Pennsylvania
Rhode Island
Vermont

North Central

Illinois
Indiana
Iowa
Kansas
Michigan
Minnesota
Missouri
Nebraska
North Dakota
Ohio
South Dakota
Wisconsin

South

Alabama
Arkansas
Delaware
District of Columbia
Florida
Georgia
Kentucky
Louisiana
Maryland
Mississippi
North Carolina
Oklahoma
South Carolina
Tennessee
Texas
Virginia
West Virginia

West

Alaska
Arizona
California
Colorado
Hawaii
Idaho
Montana
Nevada
New Mexico
Oregon
Utah
Washington
Wyoming

Canadian Provinces

East Canada

New Brunswick
Newfoundland
Nova Scotia
Ontario
Prince Edward Island
Quebec

West Canada

Alberta
British Columbia
Manitoba
Saskatchewan

NOTES

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